INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 12, 2001

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Letter Report - Write-off of Taxes Owed Resulted in Inequitable Treatment of Taxpayers

Thank you for responding to the subject draft report issued on July 26, 2001. Since we did not receive your comments within 30 calendar days of the draft report issuance, we released the final report on August 31, 2001. However, we would like to take this opportunity to provide feedback on your September 13, 2001, response to the calculation of the outcome measure of revenue protection.

Management's Response

"We are concerned about your calculation of the outcome measure of revenue protection. We protect revenue by filing a Notice of Federal Tax Lien, to the extent that the taxpayer has property, or rights to property, to which the federal tax lien attaches. An analysis of the marginal increase in collectibility is needed to determine the amount of revenue we could protect. For your analysis to support the conclusion that the lien filings would have protected $500 million, we must assume the amount owed is 100 percent collectible and only if notices of lien are filed. Both assumptions are incorrect. For example, the statutory lien allows us to offset overpayments for the life of the collection statute--no filing is necessary.

We are also concerned because the sample size reflected in your report does not appear to sufficiently represent the total population of cases. You cannot apply findings to the total population unless they are based on a random, statistically valid sample. You indicate that this was not done, but that you used two "judgement" samples. In addition, the method you used incorrectly subtracts the cost of lien filing from the projected benefit. We debit lien fees, like other costs of collection, from the taxpayer's account and include them in the total balance covered by the filing. If the report had included an analysis of the marginal revenue protected by filing, you should also include a portion of the lien fees in the amount of revenue protected."

Office of Audit Comment

We agree that the results from the samples that we analyzed and included in the report cannot be applied to the total population of cases associated with these samples. However, the samples of cases selected for analysis were used solely to present that the lien procedures were not consistently followed without any projections being made. To compute the amount of potential revenue that could be projected by the filing of a lien, we obtained a computer extract from the Internal Revenue Service's (IRS) files covering the period June to December 2000. This extract identified that 57,343 cases were removed from inventory and met IRS minimum lien-filing criteria, however, no tax lien was filed. These taxpayers owed an estimated $502 million in taxes. We agree that there are a number of means by which the IRS may collect the taxes owed, however, our position remains that the filing of a tax lien would ensure the government's interest in the taxes owed is *protected*.

Copies of this memorandum are also being sent to the IRS managers who received a copy of the final report. Please contact me at (202) 622-6510 if you have questions, or call Stanley C. Rinehart, Acting Associate Inspector General for Audit (Wage and Investment Income Programs), at (972) 308-1670.

cc: Commissioner N:C
Chief Counsel CC
Director, Compliance W:CP
Director, Compliance Services W:CP:CS
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Director, Strategy and Finance W:S
National Taxpayer Advocate TA
Office of Management Controls N:CFO:F:M
Audit Liaisons:
Director, Compliance W:CP